The Real Estate TRENDS

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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

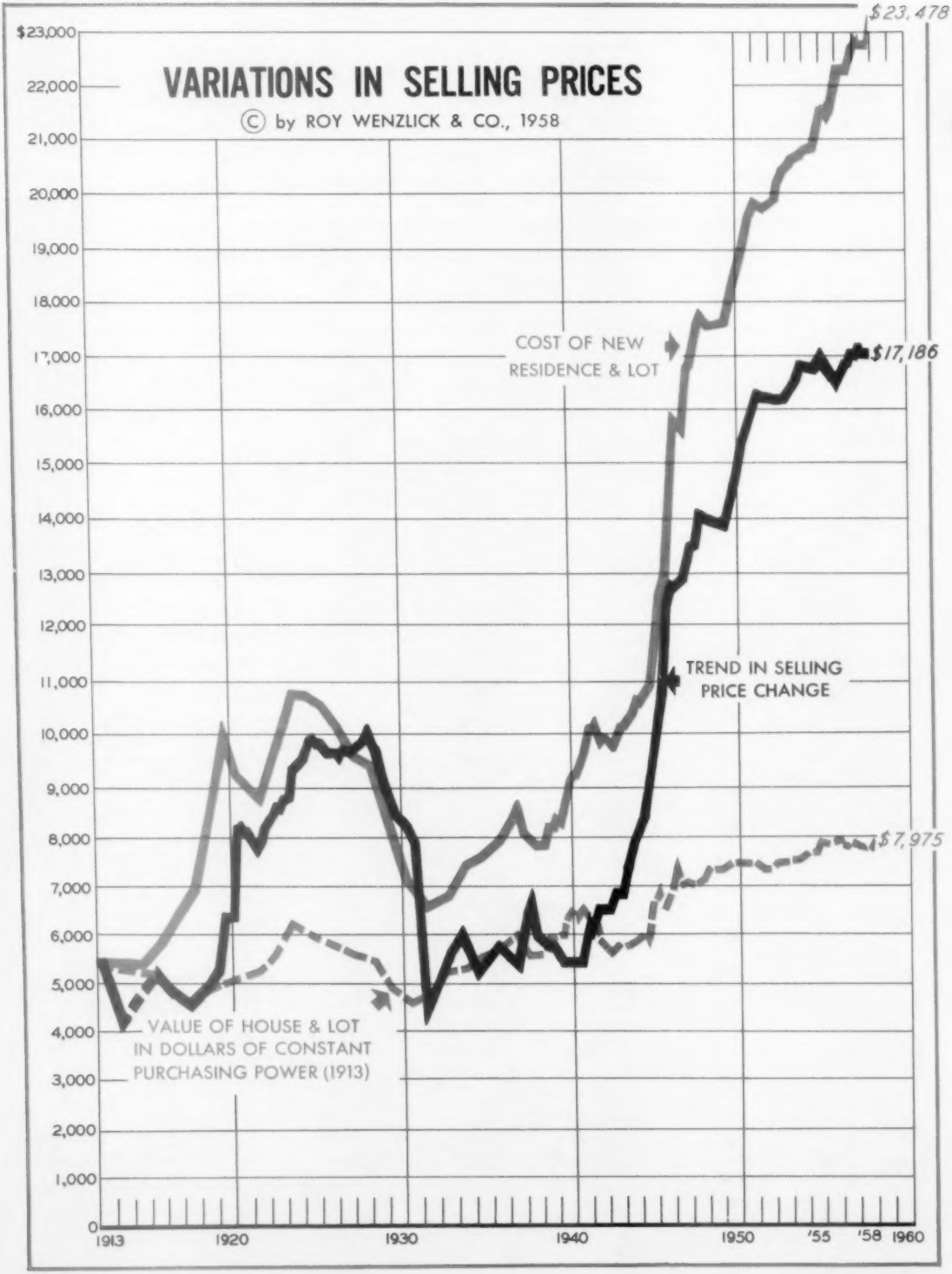
FOR the sixth consecutive month real estate activity has been increasing. In studying our long chart on real estate activity from 1852 to the present, a period of 107 years, we have found that the number of years which have elapsed from the peak of a real estate activity boom to the bottom of the real estate activity readjustment period have been as follows:

Peak of real estate boom	Lowest point of readjustment	Period of decline
June 1852	Dec. 1861	9 yrs. 6 mos.
Apr. 1872	May 1878	6 yrs. 1 mo.
Sept. 1888	June 1898	9 yrs. 9 mos.
Feb. 1906	Nov. 1918	12 yrs. 9 mos.
Oct. 1925	Nov. 1933	8 yrs. 1 mo.
May 1946	May 1958	12 yrs. 0 mo.

From this table it would not be unreasonable to expect that the low point in the readjustment has been reached. Should this prove to be the case, how far off might the peak of the next real estate boom be? Again let us look at our long chart. The table below shows the length of the periods of rising activity from the bottom of the readjustment period to the peak of the succeeding boom.

Lowest point of readjustment	Peak of succeeding real estate boom	Period of rise
Dec. 1861	Apr. 1872	10 yrs. 5 mos.
May 1878	Sept. 1888	10 yrs. 4 mos.
June 1898	Feb. 1906	7 yrs. 8 mos.
Nov. 1918	Oct. 1925	6 yrs. 11 mos.
Nov. 1933	May 1946	12 yrs. 5 mos.

This study of peaks and lows would indicate that in the past it has always taken a period of years after reaching a low to rise to the following boom. Whether in our partially managed economy this period can be shortened remains to be seen.


VARIATIONS IN SELLING PRICES
© by ROY WENZLICK & CO., 1958
$23,000
22,000
21,000
20,000
19,000
18,000
17,000
16,000
15,000
14,000
13,000
12,000
11,000
10,000
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
1913
1920
1930
1940
1950
'55
'58
1960
$23,478
COST OF NEW RESIDENCE & LOT
$17,186
TREND IN SELLING PRICE CHANGE
$7,975
VALUE OF HOUSE & LOT IN DOLLARS OF CONSTANT PURCHASING POWER (1913)

Business activity rose above normal in August and has been increasing ever since. Factory output is above a month ago with the output in steel mills running about 75% of capacity. On the whole, strength in business has been gained from increasing consumer demands, increasing output in steel, and an upturn in automobile production. Automobile production, though below hoped-for levels, is helping to put the economy on its feet.

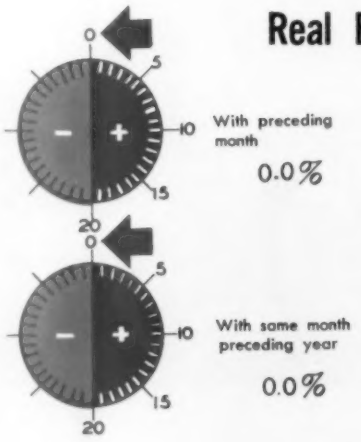
Additional strength in business is being gained from the brisk retail trade and an upturn in business spending for new plant and equipment.

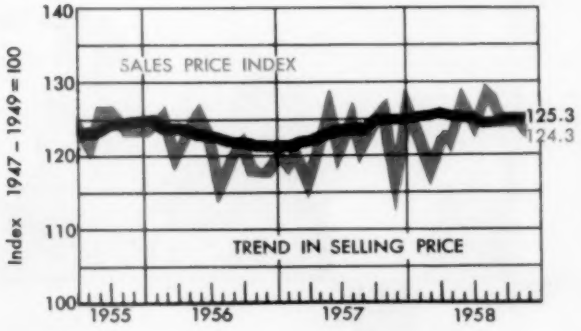
The first real signs of business recovery are showing up in the vital area of the economy. Business firms are planning to spend at a rate of $30.5 billion per year for plant and equipment in the first quarter of 1959. The significant, but small, gain in capital spending indicates renewed confidence beginning to take shape for the coming year.

The strengthening financial position of corporations is indicated by the sharp rise in their profits, their lack of demand for bank credit, and willing-

(cont. on page 570)

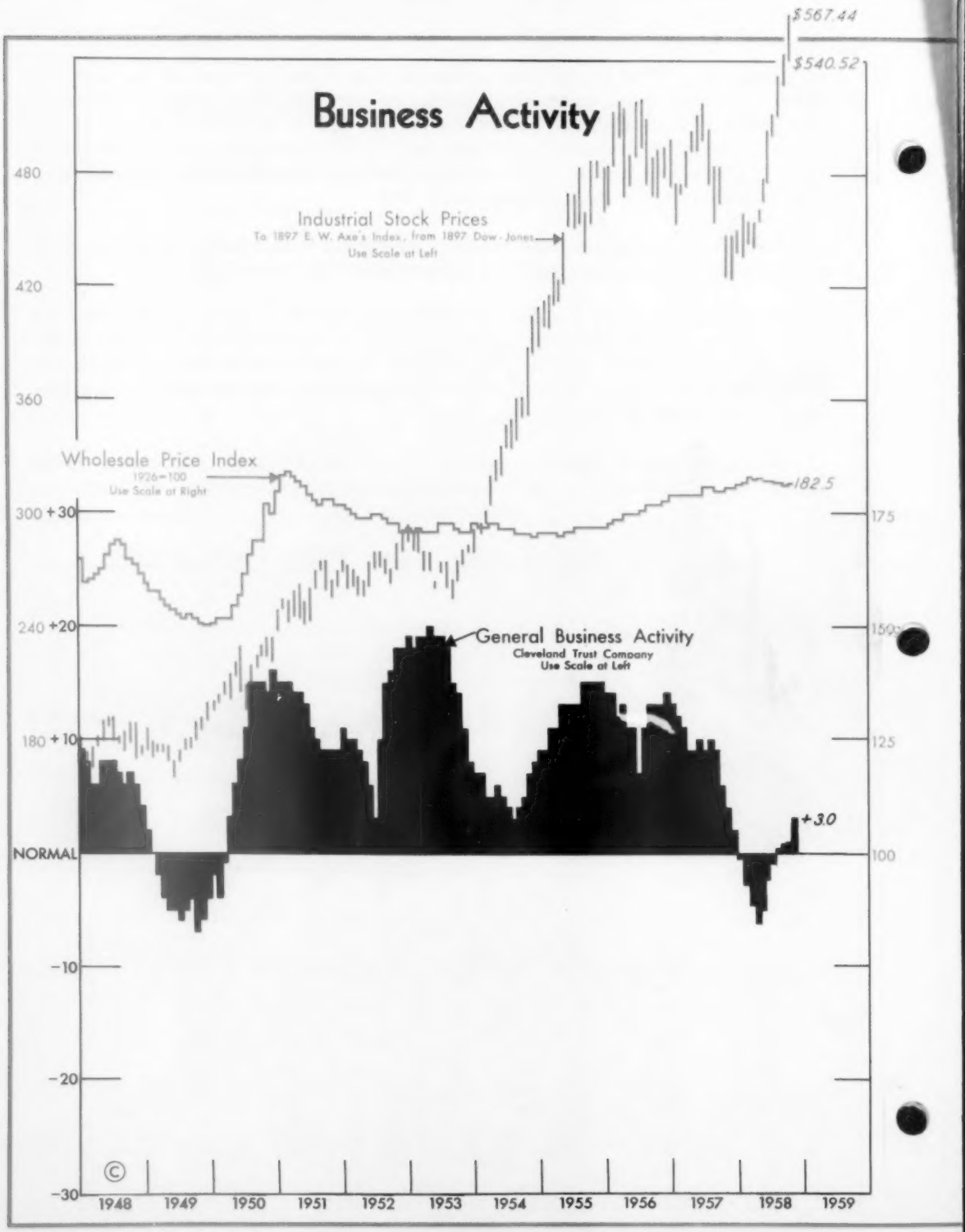
Real Estate Sales Price Comparisons

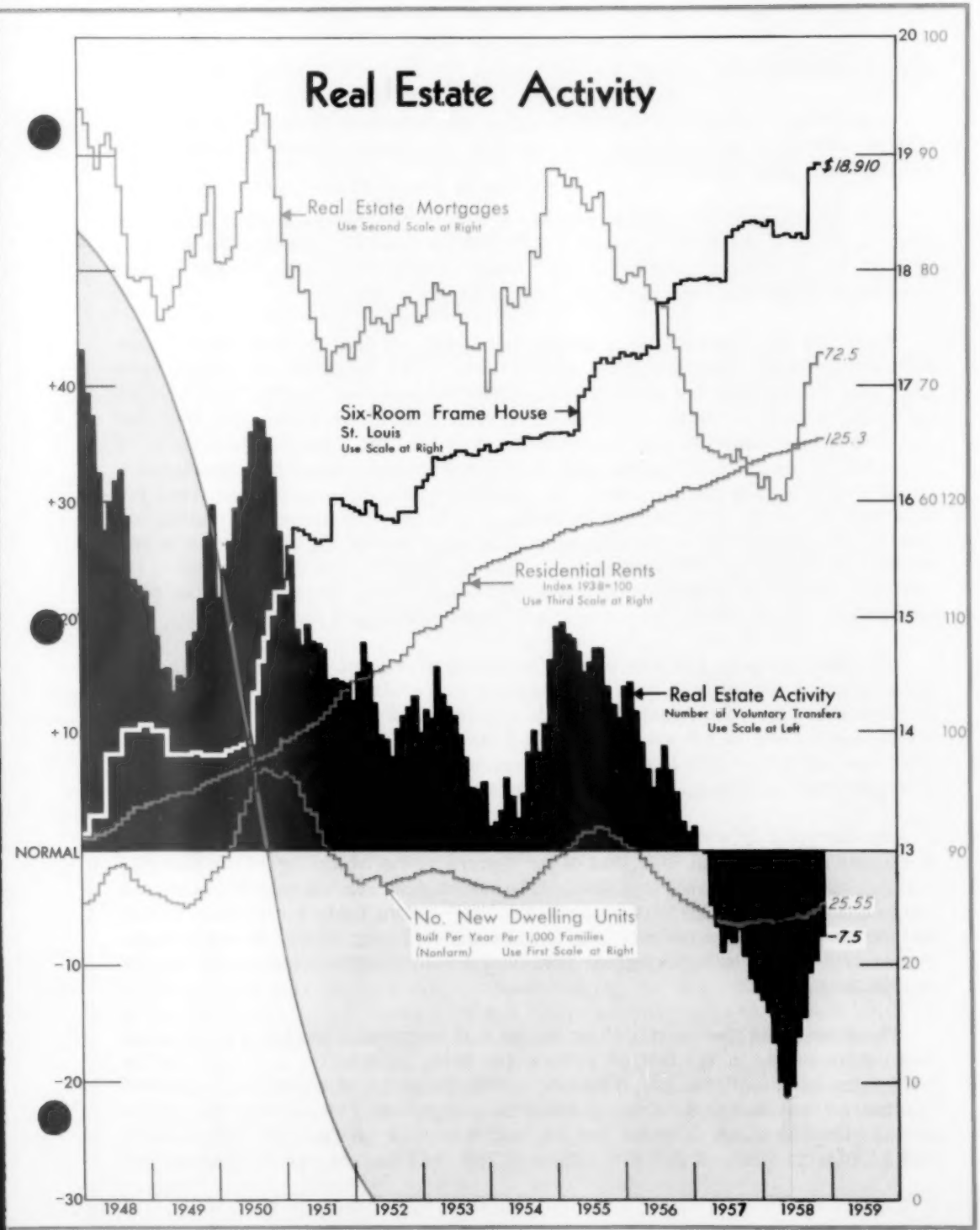




Date	Trend in selling price	Probable selling price of a house that sold for $12,000 in 1947-49 period
1947-49	100.0	$12,000
1913	40.1	4,812
1918	34.1	4,092
Mar. '29	73.9	8,868
May '32	34.8	4,176
Apr. '34	44.8	5,376
July '37	40.1	4,812
Apr. '38	42.8	5,136
Mar. '41	40.1	4,812
Oct. '48	104.5	12,540
Oct. '53	119.7	14,360
Oct. '54	122.3	$14,680
Oct. '55	125.1	15,010
Oct. '56	121.9	14,630
Oct. '57	125.3	15,040
Jan. '58	125.5	15,060
Mar. '58	126.1	15,130
June '58	125.8	15,095
Sept. '58	125.3	15,040
Oct. '58	125.3	15,040
Nov. '58	125.3*	15,040*

Preliminary.


Business Activity
$567.44
$540.52
480
420
360
Industrial Stock Prices
To 1897 E. W. Axe's Index, from 1897 Dow-Jones
Use Scale at Left
Wholesale Price Index
1926=100
Use Scale at Right
182.5
300 +30
240 +20
180 +10
NORMAL
-10
-20
-30
175
150
125
100
General Business Activity
Cleveland Trust Company
Use Scale at Left
+3.0
©
1948
1949
1950
1951
1952
1953
1954
1955
1956
1957
1958
1959


Real Estate Activity
Real Estate Mortgages
Use Second Scale at Right
$18,910
Six-Room Frame House
St. Louis
Use Scale at Right
72.5
125.3
Residential Rents
Index 1938=100
Use Third Scale at Right
Real Estate Activity
Number of Voluntary Transfers
Use Scale at Left
No. New Dwelling Units
Built Per Year Per 1,000 Families
(Nonfarm) Use First Scale at Right
25.55
-7.5
NORMAL
+40
+30
+20
+10
-10
-20
-30
20 100
19 90
18 80
17 70
16 60 120
15 110
14 100
13 90
20
10
0
1948
1949
1950
1951
1952
1953
1954
1955
1956
1957
1958
1959

(cont. from page 567)

ness to purchase new Treasury issues sold to finance the Federal deficit.

The Treasury should take heed of growing corporate demands for working capital. Corporations may stop buying new Treasury issues and may start selling those they now hold.

With the demand for private corporate funds increasing and the simultaneous increase in the Government's demand for funds to finance the Federal deficit, both private businesses and Government will be competing against each other in the open market for a limited supply of capital.

Investors are faced with a Hobson's choice. If the Federal Government deficit continues, investors must buy Government bonds or the Government must sell its bonds to the banks creating new currency and credit, and pouring oil on the inflation. On the other hand, since it is unlikely that enough investors can be persuaded to buy Government bonds with the inflationary outlook, it is probable that those investors who do purchase these bonds will experience a loss in purchasing power. Also, if investors should develop a preference for Government bonds, it is going to be difficult to secure the necessary capital for real estate and for industrial expansion. In other words, if we continue to operate with unbalanced Federal budgets we are going to sink deeper into a financial morass which apparently must get considerably worse before the general public, labor unions, and politicians become aware of the danger.

The chart on page 566 shows the variation in cost of a new residence on a suitable lot in comparison with the selling price of an existing residential building which has been sold at least once before. It is interesting to note that the selling price of the existing building has been relatively stable in a period when real estate activity has been dropping and financing, particularly for older residential buildings, has been increasingly difficult.

The behavior of both the building cost figure and the selling price figure is in marked disagreement with that of the figures at the beginning of the last readjustment period. Then, building costs moved downward 4 years before real estate activity went below our normal line, and selling prices of older buildings declined 2 years before. As long as the selling prices of older residences refuse to drop by any great percentage, any readjustment in real estate will be mild.

The dashed red line on this chart shows that the greater part of the change in real estate values in the last 25 years has been, primarily, a change in the purchasing power of money. This line shows the cost of a new residence and suitable lot had we had a dollar of constant purchasing power over the entire period. On this basis, a house and lot, which in 1913 cost $5,500, today would cost $7,975, in place of $23,478. If we inflate still further, which it seems we

are about to do, the cost in dollars will continue upward while the cost in dollars of constant purchasing power will probably go sideways or drift slightly upward.

Our sales price index, based on the selling prices of existing single-family residences, shows no change for November.

Over the long period, the selling prices of existing houses depend primarily on their replacement cost new, and as long as we continue to inflate our general economy, building costs will have a tendency to rise, bringing about a similar tendency in the prices of buildings already built.

Mortgage interest rates have changed very little as can be seen on our mortgage interest rate table. However, discounts are continuing to run high, reaching 5 points in some areas, much of which can be traced to direct Government controls.

AVERAGE INTEREST RATE OF RECORDED MORTGAGES
IN 12 MAJOR CITIES OF THE UNITED STATES

Jan. '54	5.187%	Jan. '56	5.105%	Jan. '58	5.775%
Apr. '54	5.173	Apr. '56	5.157	Apr. '58	5.813
July '54	5.089	July '56	5.141	July '58	5.664
Oct. '54	5.092	Oct. '56	5.229	Aug. '58	5.657
				Sept. '58	5.650
Jan. '55	5.045	Jan. '57	5.363	Oct. '58	5.631
Apr. '55	5.079	Apr. '57	5.507	Nov. '58	5.652
July '55	5.050	July '57	5.501		
Oct. '55	5.055	Oct. '57	5.602		

Ceilings on interest rates hurt rather than help the market, keeping Government-backed mortgages from competing with other long-term investments for the investors' dollar.

For instance, the maximum interest rate set on FHA mortgages is 5-1/4%, on VA mortgages 4-3/4%, while interest rates on other long-term issues are left free to respond to market demands. Hence discounting of Government-backed mortgages. When the money market is tight, as it is today, discounts in some areas rise to the point of discouraging the home builder. Mortgage lenders are unwilling to make FHA and VA commitments as they feel interest rates will increase, bringing them a higher rate of return on their dollar.

Whenever interest rates in general are on the increase, investors put larger percentages of their capital into bonds unhindered by interest controls. A reduction in the supply of money for FHA and VA mortgages would not result if their interest rates were free to fluctuate according to changing market demands.

INCREASES IN BUILDING COSTS SINCE 1939

ST. LOUIS
December 1958

SIX-ROOM BRICK HOUSE (FRAME INTERIOR)*
Content: 23,100 cubic feet
1,520 square feet
Cost 1939: $6,092
(26.4¢ per cubic foot; $4.01 per square foot)
Cost today: $20,214
(87.5¢ per cubic foot; $13.30 per square foot)
INCREASE OVER 1939 = 231.8%

For plans and specifications see page 23 of the Wenzlick Building Cost Manual.

FIVE-ROOM BRICK VENEER HOUSE*
Content: 24,910 cubic feet
1,165 square feet
Cost 1939: $ 5,440
(21.8¢ per cubic foot; $ 4.67 per square foot)
Cost today: $17,025
(68.3¢ per cubic foot; $14.61 per square foot)
INCREASE OVER 1939 = 213.0%

For plans and specifications see page 15 of the Wenzlick Building Cost Manual.

SIX-ROOM FRAME HOUSE*
Content: 24,288 cubic feet
1,650 square feet
Cost 1939: $ 5,671
(23.4¢ per cubic foot; $ 3.44 per square foot)
Cost today: $18,930
(77.9¢ per cubic foot; $11.47 per square foot)
INCREASE OVER 1939 = 233.8%

For plans and specifications see page 3 of the Wenzlick Building Cost Manual.

6-ROOM CALIFORNIA BUNGALOW - NO BASEMENT
Content: 12,119 cubic feet
992 square feet
Cost 1939: $ 3,392
(28.0¢ per cubic foot; $ 3.42 per square foot)
Cost today: $10,741
(88.6¢ per cubic foot; $10.83 per square foot)
INCREASE OVER 1939 = 216.7%

For plans and specifications see page 31 of the Wenzlick Building Cost Manual.

STANDARD BRICK RANCH HOUSE
Content: 16,250 cubic feet
840 square feet
Attached garage - 200 square feet
Without garage - $13,264
(81.6¢ per cubic foot; $15.79 per square foot)
Garage - $1,010
($5.05 per square foot)

For plans and specifications see page 52 of the Wenzlick Building Cost Manual.

CONTEMPORARY FRAME RANCH HOUSE
(Dry Wall)
Content: 12,285 cubic feet
1,170 square feet
Carport - 320 square feet
Without carport - $13,534
($1.10 per cubic foot; $11.57 per square foot)
Carport - $627
($1.96 per square foot)

For plans and specifications see page 41 of the Wenzlick Building Cost Manual.

*Costs include full basement.